

# Calima Energy Ltd

## (CE1 \$0.05) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	30 <sup>th</sup> May 2018	\$0.10/sh

### Site Visit

### Investment case

We have completed a site visit of the Calima grounds: activity in the Montney trend has ramp-up considerably in the 8mnths since we initiated coverage on CE1. This is being driven by the recent endorsement by the National Energy Board for construction to commence on the North Montney Mainline Project ("NMMP"). In addition, rising oil prices have reinvigorated demand for diluent condensate by the tar sand operators. Drilling activity has picked up with offset operators reporting prolific condensate rich flow rates. With the trend heavily invested by Private Equity ("PE"), we view that the Montney is ripe for consolidation ahead of public offerings as the means for PE to exit. Therefore, we view consolidation of the Calima Project on 100% basis net to CE1 as a key trigger to entice corporate overtures. Drilling from year end, will serve to accelerate interest. Speculative Buy.

### Key points

- We have recently reviewed CE1's Calima Project, visiting the site recently cleared from CY end drilling as well as neighbouring operators' drilling operations and gathering infrastructure;
- Activity within the Montney trend has picked substantially – particularly in the liquids' rich fairway – since we initiated coverage on CE1 last October:
  - Suncor has vended its 123,000 net acres in the liquids rich Montney into PE backed Cambrian Energy in Feb 2018 (<https://www.energeticcity.ca/2018/02/cambrian-energy-acquires-suncors-northeast-b-c-holdings/>);
  - Increasing higher-value liquids is a focus area for Encana. The Company reported a doubling in Montney liquids between 2016 and 2017, to 29,000 bbls/d. This is expected to again double in the fourth quarter of 2018 to up to 65,000 bbls/d. (<http://www.jwnenergy.com/article/2018/3/encanas-bc-montney-natural-gas-surges-one-billion-cubic-feet-day/>);
  - Conoco-Phillips purchased 35,000 acres for US\$120m in April, 2018 (<http://www.alaskahighwaynews.ca/business/conocophillips-expands-montney-land-position-by-us-120-million-as-appraisal-work-continues-1.23255255>);
  - Painted Pony has recently flowed a Montney well at 2,000boepd (10mmscf/d & 360bbls condensate and NGLs) proximal to CE1's interests in April 2018 (<http://paintedpony.ca/investors/news-releases/news-releases-details/2018/Painted-Pony-announces-discovery-well-test-results-on-Beg-block-in-northeast-British-Columbia/default.aspx>);
- This is a function of inc. demand by the tar sand producers for diluent Condensate currently achieving C\$85/bbl, up 30% yr-on-yr (<https://www.psc.ca/business/gmpfirstenergy/>);
- Activity more broadly has picked up in response to positive developments regarding the NMMP: "Canada's National Energy Board has recommended the federal government approve a variance to NGTL's previously issued North Montney Mainline Project certificate, which would allow construction to start in northeast British Columbia" (<https://globenewswire.com/news-release/2018/05/24/1511449/0/en/National-Energy-Board-Recommend-Approval-of-1-4-Billion-North-Montney-Mainline-Project-Variance.html>);
- This is translating to the likes of Progress Energy restarting gas wells and pushing new drilling development proximal to the Calima grounds;
- CE1 is now essentially drill ready with a 12ha pad cleared, with water rights and access routes permitted and under construction;

Calima Energy (CE1) Ltd	Year Ended 30 June	
Share Price	0.05	A\$/sh
Price Target	0.10	A\$/sh
Valuation	0.15	A\$/sh

Shares on issue	557.1	m, undiluted
FB Ord Restricted	51.8	m
Performance Rights	39.5	m
Market Cap. – ex-perf rights	31	A\$m
Enterprise Value	27	A\$m
Debt	0	A\$m
Cash (est)	5	A\$m

Turnover	1.7m	Sh/day
12 Mth Hi-Lo	6.2-1.8	Cps
Balance date		June 30th

### Directors & Management

Glenn Whiddon	Ex Chair
Alan Stein	MD
Jonathan Taylor	Tech Dir
Neil Hackett	NED

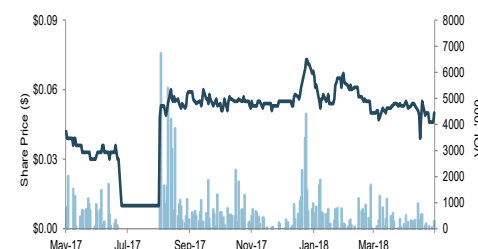
### Shareholders

Dir & Mgmt	+20%
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### Company Details

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### Share Price Chart



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This analyst declares that he has a beneficial interest in Calima Energy Ltd.

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## Calima Energy Ltd

### (CE1 \$0.05) Speculative Buy

- This will support up to 20 drilling locations allowing for line of sight for drilling and cost optimisation for 3yrs of development;
- We also assume CE1 is nearing agreement to access existing infrastructure to process and export its gas;
- CE1 is well advanced in its consolidation to assume 100% of the Calima Project, constituting:
  1. 72,000 net acres of drilling rights in the liquids-rich, Montney Formation;
  2. Prospective Resources (indep. Certified) of 476mmboe – 2.2Tcf; 54.2mmmbbls condensate; 60.2mmmbbls NGLs;
  3. 400 gross drilling locations;
- This will command greater market relevance in terms of size, simplicity and marketability, assumed under a single publically listed entity;
- CE1's Calima Project is strategically well placed to be a target of a number of PE backed entities looking to bulk up ahead of IPO (Black Swan, Saguaro etc).

### Analysis

We view that consolidation of the Calima Project into a single entity will induce more robust discussions with industry regarding realising value for the asset.

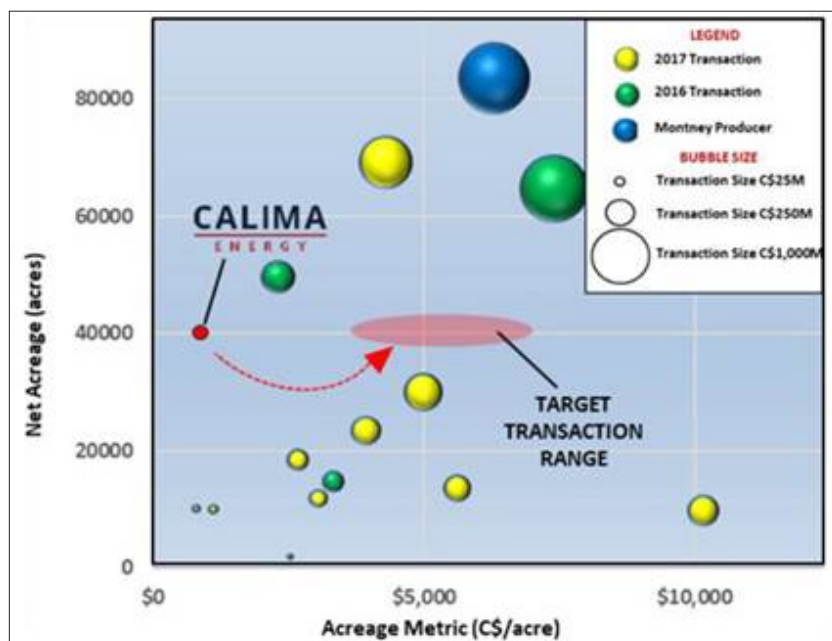
Previously, Saguaro had been in the driving seat, however, moves by Progress, Black Swan and Painted Pony proximal to CE1's interests, suggests to us that the increasing demand for liquids yielding Montney rights could create stronger competitive tension.

To that end, the downturn (due to low oil prices and very low gas prices) of the last 6yrs has seen a number of PE backed Montney players stall in their growth ambitions.

Time limits on the respective PE investments will likely warrant a concerted effort to gross up value ahead of public listing as the logical exit point.

M&A cycle has tentatively begun with the Cambrian-Suncorp transaction in Feb the most recent notable transaction.

Noting CE1's average leasing and pre-development costs, Clients should be aware that CE1 don't need as large a sale price (vs recent transactions of up to C\$5,000/acre implied) to make sufficient return on invested capital:



Source: CE1

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## Calima Energy Ltd

### (CE1 \$0.05) Speculative Buy

For now, we have witnessed CE1 make excellent progress on the ground with respect to permitting and early works ahead of the proposed drilling campaign mid FY'19.

We believe by staying the course, CE1 will build greater strategic value into the asset to improve the realisable price.

CE1 is now essentially drill ready with a 12ha pad cleared, with water rights and access routes permitted and under construction:



*12Ha Drilling Pad cleared ahead of installation of surface infrastructure. The pad will support up to 20 wells. Source: EZL*

This will support up to 20 drilling locations allowing for line of sight for drilling and cost optimisation for 3yrs of development.

Commercial agreements to access neighbouring gas gathering and processing infrastructure with spare capacity will only enhance strategic value:



*CE1's ground is proximal to under-utilised infrastructure. Source: EZL*

We expect positive developments in the near term.

More broadly, the commodity price landscape is improving fundamentally and with the LNG export plan becoming a reality with a renewed push on the NMMP and murmurings that Shell's proposed BC LNG development is receiving renewed focus.

We remain bullish on CE1 not just for the technical potential of the Montney asset but for the strategic value of the land position.

Very simply, crystallisation of value may happen sooner rather than later as the proposed consolidation of the Calima Project on 100% basis net to CE1 makes for a more relevant, liquids rich, strategic Montney land holder in an increasingly active part of the trend.

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## Calima Energy Ltd

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We see CE1 and its Caribou interests as an emerging 'solution' to many of the more mature Montney players: Liquids and takeaway infrastructure are critical at this point in the cycle and the evolution of the Montney.

Speculative Buy maintained. Our Valuation is \$0.15/sh and Price Target \$0.10/sh.

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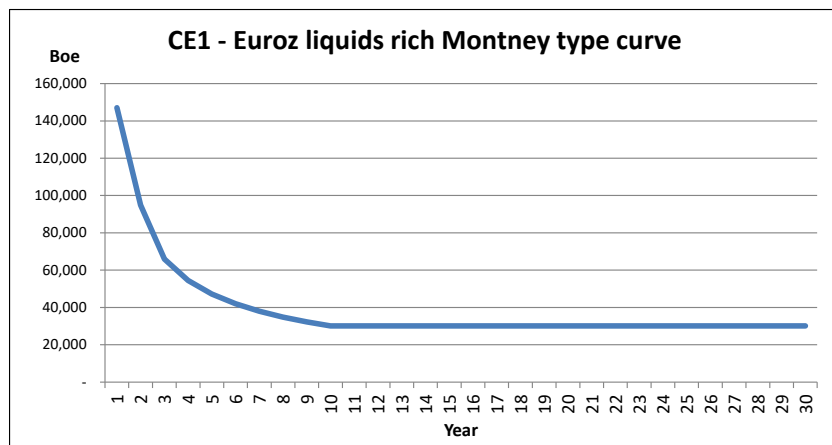
# Calima Energy Ltd

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## Key Variables

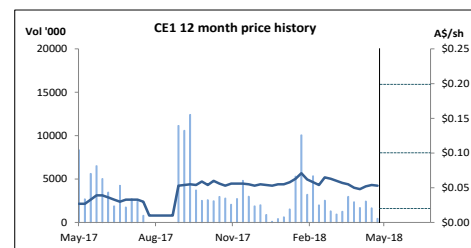
Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Gas USD	\$3.00	\$3.50	\$3.50	\$3.57	\$3.57	\$3.57
WTI USD	\$60	\$68	\$75	\$75	\$75	\$75
AUDUSD	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78



IRR %	Condensate Yield (bbl/mmscf)				
	20	30	40	50	60
	50	7	14	23	34
	55	9	17	28	42
Oil Price (US\$/bbl)	60	10	20	33	49
	65	12	23	38	58
	70	13	26	44	67
	75	15	30	51	77

IRR %	Well Cost (US\$m)			
	7	6.5	6	5.5
	50	8	10	14
	55	10	11	17
Oil Price (US\$/bbl)	60	11	13	20
	65	13	16	23
	70	15	18	26
	75	17	20	30

## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$0.15/sh

Price Target - \$0.10/sh

Bull Scenario - \$0.20/sh

Development and corporate activity within the Montney increases substantially, as a consequence of rising oil prices and increased demand for diluent feedstock for the tar sands.

Base Scenario - \$0.10/sh

Execution of the appraisal program as proof of concept of the liquids rich nature of the Calima Montney Project.

Bear Scenario - \$0.02/sh

Failure to execute on the Montney strategy and inability to sell the asset.

## Company Summary

Calima Energy (CE1) is an oil and gas exploration company holding interests British Columbia (BC) and Western Sahara (SADR). CE1's current focus remains on the Montney Project (BC) development. Recently released Maiden Prospective Resources for Montney are 475.8mmboe (CE1 - net: 261.7mmboe).

Calima will continue to achieve option requirements to acquire a dominant land position within the Montney Project.

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